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**Gold Corporation**  
(trading as The Perth Mint)  
ABN 98 838 298 431

310 Hay Street, East Perth,  
Western Australia, 6004,  
Australia

A statutory authority under the  
*Gold Corporation Act (1987)* of  
Western Australia

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Founded in 1899, the Perth Mint is an integrated precious metal operation refining circa 10% of world gold production; servicing investors with legal tender bullion coins and bars and the Perth Mint Depository custodial facility; providing collectors with innovative and high quality numismatic coins; supplying mints with precious metal blanks; and operating a leading Perth tourist attraction.

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## BLOG WATCH 3 MAY 2012

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### PREDICTIONS

**BNP Paribas:** “cut its average gold price forecast for 2012 from \$1855 per ounce to \$1715, and its silver price forecast from \$37.50 to \$33.10.”

**Real Asset Returns:** “we’ll see \$2,000 gold by late this year or early 2013.”

The above forecast is based on their “Golden Staircase” theory, described as follows: *“Since the beginning of gold’s secular bull, the ‘Golden Staircase’ has demonstrated that it typically takes 12 to 18 months for gold to establish a new price high once it retreats from a strong run-up. Eight months have already passed since gold reached \$1,900. The ‘Golden Staircase’ theory tells us that it will take between four and 10 months to see new highs.”*

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### GOLD PRICE “RECESSIONS”

Bullion Vault’s Adrian Ash has a [piece](#) on the fact that gold has just recorded three monthly losses in succession. He notes that *“three consecutive months of falling gold prices are rare however you count it. Since 1957 in fact, they’ve struck only 65 times in a total of 661 three-month periods.”* Given its rarity, he says a *“‘two months max’ [trading rule] made for a great signal to buy gold on pullbacks, most recently in Jan. 2010 (your last chance below \$1100) and April 2009 (last chance below \$900).”*

Of course, past performance is never a guarantee of future performance and this “rule” is just a probability bet which requires ongoing investor and central bank buying to work, as [Lawrence Williams](#) indicates with this rhetorical question:

*“... given the apparent liquidations out of gold ETFs and of long positions on COMEX coupled with supposedly fragile Indian and Chinese demand, how come the price is even managing to remain where it is? Can Central Bank purchases perhaps be running at a higher level than seen so far - certainly the March figures when known Central Bank buying accounted for 58 tonnes of the stuff suggests that this is indeed increasing.”*

### TRADERS ON EDGE

In this King World News [interview](#), Dan Norcini observes that *“Traders are literally sitting on edge. As each bit of economic data comes out or each story breaks out of Europe, traders have no conviction as to which way things are going.”* The result is that



*“they are afraid of getting caught on the wrong side of the market because the moves, in many cases, are extreme ... and you end up with some pretty violent moves in these markets.”*

I find it interesting then that Dan interprets the 7500 gold futures contract “fat finger” trade as *“yet another takedown attempt”* rather than considering the possibility that it reflected nervous traders not wanting to get caught on the wrong side of the market?

## **SILVER JEWELLERY ON THE UP**

Mineweb [reports](#) that Indian exports of silver jewellery to the US are up 52% in March compared to March 2011. It is driven by the high price of gold, which according to an Indian retailer, has *“deterred many consumers in the US and across Europe from making any fresh purchases. This is proving to be a major boon for silver jewellery items, which are being picked up at major retail outlets.”*

## **SILVER SCRAP ON THE UP**

Silver Investing News [reports](#) that silver scrap has also grown, with high prices driving increases in silver recycling, *“with silver from scrap rising some 20 million ounces, this source of supply accounted for nearly 25 percent of total production last year”* according to the Thomson Reuters GFMS World Silver Survey 2012.

The growth has been driven by *“combination of shorter product lifecycles and stricter legislation ... making electronic scrap the fastest growing recycling segment”* according to recycler Bolidan, who *“produces 500,000 kilos of silver annually”, 25% of which comes from electronic scrap.*

Bolidan says recycling is good for the environment because *“extracting metals from scrap only requires ten to fifteen percent of the energy required to extract metals from ore.”* It is probably not good for silver miners however as the extra supply *“could put a damper on prices by widening the gap between supply and demand”* with GFMS concluding that *“the silver market was in surplus and would have been overwhelmingly flooded with metal if there hadn’t been strong support from investors.”*

One interesting tidbit from the Silver Investing News article is that around one kilo of silver can be recovered from one ton of old mobile phones.

## **BETTER OFF IN GOLD BULLION RATHER THAN GOLD STOCKS?**

Amine Bouchentouf at [Hard Assets Investor](#) website feels that gold stocks will continue to underperform gold bullion in 2012 because *“volatile equity markers, environmental regulations and rising costs for miners create head winds that physical gold doesn’t encounter.”*

Marc Faber agrees, in [this interview](#), saying *“that you are better off in physical gold than in gold miner stocks, for a variety of reasons.”* However, because gold does not



generate cash flow, he advises “you have a diversified portfolio and you have some physical gold and you have some fixed-interest securities and high-dividend shares and some real estate properties that provide you with some income, then if assets go down, you have at least have cash flow for reinvestment purposes.”

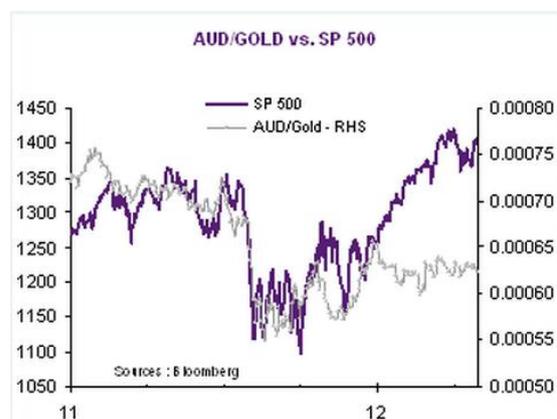
However, with Barrick [increasing](#) its quarterly dividend by 33%, maybe gold shares are one way to get the cash flow that Marc Faber recommends?

## AUSSIE GOLD VS S&P 500

I’m a bit puzzled by this from Natixis chief economist Evariste Lefeuvre (from [FT Alphaville](#)):

*“There is nothing more alluring than two assets that move together and show regular and short-lived correlation breaks. AUD/GOLD and the S&P 500 is such a pair, due to the near-perfect correlation between AUD/USD and the S&P 500.*

*Unfortunately, the last few months have disappointed, as the AUD/GOLD vs. SP 500 correlation showed a nasty downward trend – a decoupling clearly visible in the chart [at left]”*



Puzzled because the Australian gold price is not something that exists as a real economic “thing” worthy of analysis. Australian dollar flows into and out of gold (that is, Australian demand and supply for gold) is very minor compared to the flows of dollars between the AUD/USD exchange rate and flows between US dollars and gold.

The result is that AUD Gold prices are just derived from USD gold prices and the Australian exchange rate. Hence all Evariste is really discussing is the decoupling between USD Gold and the S&P 500.

**Bron Suchecki**

bron.suchecki@perthmint.com.au | +61 8 9421 7379 | [www.perthmint.com.au/treasury](http://www.perthmint.com.au/treasury)

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